

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type [] City [] Township [] Village [x] Other		Local Government Name Cass County Road Commission		County Cass	
Audit Date 12/31/04		Opinion Date 2/18/05		Date Accountant Report Submitted to State: 4/07/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

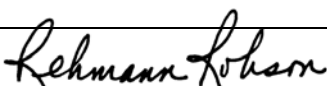
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | | |
|-------|-----|-------|----|----|--|
| [] | Yes | [x] | No | 1. | Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| [] | Yes | [x] | No | 2. | There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| [x] | Yes | [] | No | 3. | There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| [] | Yes | [x] | No | 4. | The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| [] | Yes | [x] | No | 5. | The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| [] | Yes | [x] | No | 6. | The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| [] | Yes | [x] | No | 7. | The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| [] | Yes | [x] | No | 8. | The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| [] | Yes | [x] | No | 9. | The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature 		Zip 48605	

CASS COUNTY ROAD COMMISSION

(a Component Unit of Cass County)

Cassopolis, Michigan

FINANCIAL STATEMENTS

For The Year Ended December 31, 2004



REHMANN ROBSON

Certified Public Accountants

CASS COUNTY ROAD COMMISSION
(a Component Unit of Cass County)

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements for the Year Ended December 31, 2004	
Statement of Net Assets and Governmental Funds Balance Sheet	8
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	9
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance	10
Reconciliation of the Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	11
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Operating Fund	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Parks Fund	13
Notes to Financial Statements	14-22
Operating Fund Schedules	
General Operating Fund – Schedule of Changes in Fund Balance	23
General Operating Fund – Schedule of Revenues	24
General Operating Fund – Schedule of Expenditures	25
Internal Control and Compliance	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	26-27



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

February 18 2005

Members of the Board of County
Road Commissioners
County of Cass, Michigan
Cassopolis, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the nonmajor fund of the **CASS COUNTY ROAD COMMISSION**, a component unit of Cass County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Cass County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the nonmajor fund of the **Cass County Road Commission** as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the general operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2005, on our consideration of the **Cass County Road Commission's** internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Cass County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Cass County Road Commission, we offer the readers of the Road Commission's financial statement this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2004.

Financial Highlights

This is the second year of reporting as provided in Statement No. 34 as directed by the Governmental Accounting Standards Board (GASB). The GASB is charged with developing generally accepted accounting principles (GAAP) for governmental entities and is the ultimate authority of GAAP for state and local governments.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. The Road Commission's net assets exceeded liabilities by \$31,042,162 at the end of the 2004 fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The statement of net assets presents information on all the Commission's assets and liabilities, with the difference between the two reported *as net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The statement of activities presents information showing how the Commission's net assets changed during the most recent fiscal period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance and snow removal of primary and local roads, local roadside parks and Dodd park within Cass County, as well as the operation of parks owned by the County of Cass.

The government-wide financial statements include the Commission and the county park fund. In this report, financial information for the Commission is reported separately from the financial information presented for Cass County which reports the Commission as a component unit.

The government-wide financial statements can be found starting on page 8 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund) and the activity of the county owned parks is accounted for in the special revenue fund (Parks).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal period. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the general fund statement of revenues, expenditures, and changes in fund balances. Both statements provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains two government funds (the General Fund and the Park Fund). Information is presented in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The general fund and the park fund are major funds for financial reporting purposes as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for the general fund and park fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found on pages 14 through 22 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also present certain *required supplementary information*. This is limited to this management discussion and analysis.

Comparative analysis of the government-wide data is presented in this report with the previous fiscal period's data.

	<u>2003</u>	<u>2004</u>
Condensed Statement of Net Assets:		
Current and other assets	\$ 3,922,943	\$ 3,094,234
Capital assets	<u>34,821,777</u>	<u>36,366,503</u>
Total assets	<u>38,744,720</u>	<u>39,460,737</u>
Long-term liabilities outstanding	8,135,130	7,932,671
Other liabilities	<u>832,275</u>	<u>485,904</u>
Total liabilities	<u>8,967,405</u>	<u>8,418,575</u>
Net assets:		
Invested in capital assets	26,686,647	28,576,503
Unrestricted	<u>3,090,668</u>	<u>2,465,659</u>
Total net assets	<u>\$ 29,777,315</u>	<u>\$ 31,042,162</u>
Condensed Statement of Activities:		
Revenue		
Charges for services	\$ 1,178,160	\$ 1,666,999
Operating grants and contributions	4,913,707	5,832,623
Capital grants and contributions	777,864	108,705
Interest revenue	<u>31,318</u>	<u>31,264</u>
Total revenue	<u>6,901,049</u>	<u>7,639,591</u>
Expenses		
Public Works	5,825,483	6,038,280
Debt Service - Interest only	<u>352,292</u>	<u>336,464</u>
Total expenses	<u>6,177,775</u>	<u>6,374,744</u>
Increase in Net Assets	723,274	1,264,847
Net Assets, beginning of year	<u>29,054,041</u>	<u>29,777,315</u>
Net Assets, end of year	<u>\$ 29,777,315</u>	<u>\$ 31,042,162</u>

	<u>2003</u>	<u>2004</u>
Capital Assets and Debt Administration		
Capital Assets		
Land - not depreciated	\$ 92,146	\$ 92,146
Infrastructure – land improvements	<u>9,134,127</u>	<u>9,591,451</u>
Total capital assets not being depreciated	<u>9,226,273</u>	<u>9,683,597</u>
Land improvements	553,905	622,132
Buildings	7,309,710	7,492,362
Road equipment	7,474,987	7,707,644
Shop equipment	201,790	205,774
Office equipment	141,612	149,808
Engineering equipment	46,086	46,893
Yard & Storage equipment	137,808	137,808
Depletable assets	82,422	82,422
Infrastructure	<u>36,606,373</u>	<u>38,953,264</u>
Sub-total	<u>52,5554,693</u>	<u>55,398,107</u>
Accumulated Depreciation		
Buildings and improvements	377,427	750,067
Equipment	6,658,321	6,627,374
Depletable assets	79,100	79,100
Infrastructure	<u>19,844,341</u>	<u>21,258,660</u>
Total accumulated depreciation	<u>26,959,189</u>	<u>28,715,201</u>
Total capital assets being depreciated - net	<u>25,595,504</u>	<u>26,682,906</u>
Governmental activities capital assets - net	<u>\$ 34,821,777</u>	<u>\$ 36,366,503</u>

Significant capital additions in 2004 included the purchase of 3 motor graders for \$453,885 and a paver for \$260,962. Also, Commission projects added approximately \$\$2,804,000 to roadway and bridge infrastructure by completing numerous projects.

Long-term Debt

Bonds Payable	\$ 8,005,000	\$ 7,790,000
Compensated absences	<u>130,130</u>	<u>142,671</u>
Total	<u>\$ 8,135,130</u>	<u>\$ 7,932,671</u>

There were no new debt issuances in 2004. Total long-term debt decreased by \$202,459 during 2004.

Additional information on the Road Commission's long-term debt can be found in Note 4 on page 20 of this report.

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2004 budget during the year to reflect revenues from the sale of Federal Aid Dollars to MDOT to fund road projects and State Turnback monies for the maintenance of Old Highway 205. Expenditures were changed to reflect increased costs for health insurance, operating and completion costs for new facility. Expenditures exceeded revenues by \$462,217 in the general fund.

Other budgetary amendments made in 2004:

1. To reflect Critical Bridge project revenues and expenditures for replacement of a bridge on Christianna Drive at Juno Lake.
2. Primary and local tree removal expenses were increased due to violent wind storms in May and June which caused significant damage within the right-of-way. The budget increases for these accounts totaled \$232,000.
3. Additional purchases of equipment were deemed to be prudent: two (2) graders were purchased to take advantage of large equipment buy-back guarantees from the vendor; a replacement loader bucket was needed. Other capital outlay included the completion of the Milton township garage facility, as well as the completion of various items relating to the main administrative and service complex.
4. Drain assessments were increased due to the Hilltop Drain project in Porter Township.
5. Township projects were decreased in total, although two efforts were accomplished in 2004: (a) Local matching funds were redistributed after a single township declined participation, (b) Completion of a joint project with Pokagon Township and the Bureau of Indian Affairs for local road reconstruction.

Beginning in 2005 the fiscal period for the Road Commission will be from January to September to comply with the requirement (as a component unit of the County of Cass) of changing fiscal period to coincide with the change made by the county. All years thereafter will have a fiscal period from October 1 to September 30.

Accordingly, for 2005, revenues and expenditures will be reduced to reflect the shorter fiscal year. If the general economic slowdown results in decreased MTF funds, the appropriate adjustments will be made to the budget.

Requests for information

This financial report is designed to provide a general overview of Commission finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Cass County Road Commission, PO Box 68, Cassopolis MI 49031.

BASIC FINANCIAL STATEMENTS

CASS COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2004

	<u>Major Fund</u> <u>General</u> <u>Operating</u>	<u>Major Fund</u> <u>Parks</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>	<u>Adjustments</u>	<u>Statement</u> <u>of Net Assets</u>
ASSETS					
Cash and cash equivalents	\$ 1,368,797	\$ 292,659	\$ 1,661,456	\$ -	\$ 1,661,456
Accounts receivable					
Motor vehicle highway funds	736,557	-	736,557	-	736,557
Due on county road agreements	89,342	-	89,342	-	89,342
Other	17,207		17,207	-	17,207
Due from other funds	-	25,598	25,598	(25,598)	-
Inventories					
Road materials	360,275	-	360,275	-	360,275
Equipment material and parts	128,339	-	128,339	-	128,339
Prepaid items	100,758	-	100,758	-	100,758
Capital assets					
Assets not being depreciated	-	-	-	9,683,597	9,683,597
Assets being depreciated	-	-	-	26,682,906	26,682,906
Total assets	<u>\$ 2,801,275</u>	<u>\$ 318,257</u>	<u>\$ 3,119,532</u>	<u>36,340,905</u>	<u>39,460,437</u>
LIABILITIES					
Accounts payable	\$ 167,180	5,067	\$ 172,247	-	172,247
Accrued liabilities	44,327	475	44,802	82,949	127,751
Escrow deposits	9,411	176,195	185,606	-	185,606
Due to other funds	25,598		25,598	(25,598)	-
Long-term liabilities					
Due within one year	-	-	-	225,000	225,000
Due after one year	-	-	-	7,707,671	7,707,671
Total liabilities	<u>246,516</u>	<u>181,737</u>	<u>428,253</u>	<u>7,990,022</u>	<u>8,418,275</u>
Fund Balance/Net Assets					
Fund balance					
Reserved for					
Inventories	488,614	-	488,614	(488,614)	-
Prepaid items	100,758	-	100,758	(100,758)	-
Unreserved,					
Undesignated	1,965,387	136,520	2,101,907	(2,101,907)	-
Total fund balance	<u>2,554,759</u>	<u>136,520</u>	<u>2,691,279</u>	<u>(2,691,279)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 2,801,275</u>	<u>\$ 318,257</u>	<u>\$ 3,119,532</u>		
Net Assets:					
Investment in capital assets, net of related debt				28,576,503	28,576,503
Unrestricted				2,465,659	2,465,659
Total net assets				<u>\$ 31,042,162</u>	<u>\$ 31,042,162</u>

The accompanying notes are an integral part of these financial statements.

CASS COUNTY ROAD COMMISSION

Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets

DECEMBER 31, 2004

Fund balances - governmental funds	\$ 2,691,279
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	36,366,503
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(7,790,000)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(82,949)
Deduct - compensated absences payable	(142,671)
Net assets of governmental activities	<u><u>\$ 31,042,162</u></u>

The accompanying notes are an integral part of these financial statements.

CASS COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Major Fund</u>	<u>Major Fund</u>	<u>Total</u>		
	<u>General</u>		<u>Governmental</u>		<u>Statement of</u>
	<u>Operating</u>	<u>Parks</u>	<u>Funds</u>	<u>Adjustments</u>	<u>Activities</u>
EXPENDITURES/EXPENSES					
Current:					
Public works	\$ 7,448,207	\$ 122,258	\$ 7,570,465	\$ (1,532,185)	\$ 6,038,280
Debt service:					
Principal	215,000	-	215,000	(215,000)	-
Interest	338,021	-	338,021	(1,557)	336,464
TOTAL EXPENDITURES/EXPENSES	<u>8,001,228</u>	<u>122,258</u>	<u>8,123,486</u>	<u>(1,748,742)</u>	<u>6,374,744</u>
PROGRAM REVENUES					
Charges for services	1,657,390	9,609	1,666,999	-	1,666,999
Operating grants and contributions	5,744,768	87,855	5,832,623	-	5,832,623
Capital grants and contributions	108,705	-	108,705	-	108,705
TOTAL PROGRAM REVENUES	<u>7,510,863</u>	<u>97,464</u>	<u>7,608,327</u>	<u>-</u>	<u>7,608,327</u>
NET PROGRAM REVENUES (EXPENSES)					<u>1,233,583</u>
GENERAL REVENUES					
Interest revenue	<u>28,148</u>	<u>3,116</u>	<u>31,264</u>	<u>-</u>	<u>31,264</u>
NET CHANGE IN FUND BALANCES	<u>(462,217)</u>	<u>(21,678)</u>	<u>(483,895)</u>	<u>483,895</u>	<u>-</u>
CHANGE IN NET ASSETS				<u>1,264,847</u>	<u>1,264,847</u>
FUND BALANCE/NET ASSETS,					
Beginning of year	<u>3,016,976</u>	<u>158,198</u>	<u>3,175,174</u>	<u>26,602,141</u>	<u>29,777,315</u>
FUND BALANCE/NET ASSETS, End of year	<u>\$ 2,554,759</u>	<u>\$ 136,520</u>	<u>\$ 2,691,279</u>	<u>\$ 28,350,883</u>	<u>\$ 31,042,162</u>

The accompanying notes are an integral part of these financial statements.

CASS COUNTY ROAD COMMISSION

Reconciliation of the Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - governmental funds	\$ (483,895)
--	--------------

Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	1,136,727
Add - Infrastructure additions	2,804,215
Deduct - depreciation expense	(2,317,852)

Repayment of debt principal is an expenditure in the funds but not in the statement
of activities:

Add - bond principal payments	215,000
-------------------------------	---------

Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due.	1,557
---	-------

Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Equipment retirements	(78,364)
Increase in compensated absences	(12,541)

Change in net assets of governmental activities	<u>\$ 1,264,847</u>
---	---------------------

The accompanying notes are an integral part of these financial statements.

CASS COUNTY ROAD COMMISSION

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUE				
Permits	\$ 20,000	\$ 25,000	\$ 42,934	\$ 17,934
Intergovernmental:				
Federal sources	162,000	91,541	91,541	-
State sources	5,024,249	5,071,510	5,559,791	488,281
Local sources	1,051,000	1,408,300	1,593,605	185,305
Charges for services	4,500	4,500	4,030	(470)
Interest	9,000	24,800	28,148	3,348
Other	50,832	217,241	218,962	1,721
	<u>6,321,581</u>	<u>6,842,892</u>	<u>7,539,011</u>	<u>696,119</u>
TOTAL REVENUE				
EXPENDITURES				
Current:				
Construction	55,000	460,000	615,535	155,535
Primary heavy maintenance	950,000	755,000	755,149	149
Local heavy maintenance	1,180,000	1,413,500	1,405,237	(8,263)
Primary maintenance	1,273,000	1,336,500	1,316,303	(20,197)
Local maintenance	2,135,300	2,548,500	2,392,201	(156,299)
Equipment - net	(350,000)	(183,000)	(285,625)	(102,625)
Administrative - net	587,100	596,400	641,522	45,122
Traffic control	273,000	273,000	254,818	(18,182)
Other	205,000	200,028	198,235	(1,793)
Capital outlay - net	(291,984)	311,090	154,832	(156,258)
Debt service	553,022	553,022	553,021	(1)
	<u>6,569,438</u>	<u>8,264,040</u>	<u>8,001,228</u>	<u>(262,812)</u>
TOTAL EXPENDITURES				
NET CHANGE IN FUND BALANCE	(247,857)	(1,421,148)	(462,217)	958,931
FUND BALANCE, Beginning of year,	<u>3,016,976</u>	<u>3,016,976</u>	<u>3,016,976</u>	<u>-</u>
FUND BALANCE, End of year	<u><u>\$ 2,769,119</u></u>	<u><u>\$ 1,595,828</u></u>	<u><u>\$ 2,554,759</u></u>	<u><u>\$ 958,931</u></u>

The accompanying notes are an integral part of these financial statements.

CASS COUNTY ROAD COMMISSION

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL PARKS FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUE				
Intergovernmental:				
Local sources	\$ 83,000	\$ 83,000	\$ 83,000	\$ -
Charges for services	20,248	16,357	14,464	(1,893)
Interest	6,300	1,652	3,116	1,464
	<u>109,548</u>	<u>101,009</u>	<u>100,580</u>	<u>(429)</u>
TOTAL REVENUE				
EXPENDITURES				
Current:				
Public works	128,000	126,675	122,258	(4,417)
	<u>128,000</u>	<u>126,675</u>	<u>122,258</u>	<u>(4,417)</u>
NET CHANGE IN FUND BALANCE	(18,452)	(25,666)	(21,678)	3,988
FUND BALANCE, Beginning of year,	158,198	158,198	158,198	-
FUND BALANCE, End of year	<u><u>\$ 139,746</u></u>	<u><u>\$ 132,532</u></u>	<u><u>\$ 136,520</u></u>	<u><u>\$ 3,988</u></u>

The accompanying notes are an integral part of these financial statements.

CASS COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cass County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Cass County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Cass, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Cass County Road Commission, a discretely presented component unit of Cass County, and include the Road Commission General Operating Fund and Parks Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

Basis of Presentation

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. Major individual governmental funds are reported as separate columns in the aforementioned financial statements.

CASS COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Additionally, the government reports the following fund as a major fund. The *parks fund* accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for park operations.

Budgetary Data

All governmental funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the Board of County Road Commissioners. Budgets for the General Operating and Special Revenue Funds are adopted on a functional basis. Excess expenditures over budget at this level are disclosed on the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – for the general fund.

CASS COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

Amounts reported as cash and cash equivalents include cash and governmental market funds.

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items.

Fund Balance Reservations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Infrastructure assets are being capitalized and depreciated beginning in fiscal year 2003 as indicated on the government-wide statements. The Road Commission defines capital assets as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to forty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure.

CASS COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Significant bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Full-time Road Commission employees are granted vacation pay in varying amounts based on length of service. A maximum vacation time of thirty (30) days may be accumulated and allowed to be carried over for hourly employees. Salaried employees are not allowed to carry over vacation hours. Accumulated unpaid vacation pay amounts are 100% vested and are accrued when incurred in the government-wide financial statements. Additionally, full-time employees are entitled one day sick pay per month worked. Effective July 1, 1995, any employee who has an accumulation of more than thirty (30) sick days at June 30, shall be paid (50) percent for those sick days in excess of 30.

Payment will be made the first pay date in July using the employee's hourly pay rate in effect at June 30 of that year. Upon retirement, the employee shall receive fifty (50) percent of accumulated sick days. If an employee dies in the course of employment, the designated beneficiary of the deceased receives 100% of accumulated sick days. There is no liability for terminations other than retirement or death.

CASS COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2004, the amount of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Petty cash	\$ 1,000	\$ -
Insured	255,656	343,587
Uninsured – uncollateralized	240,332	240,332
Held by Cass County *		
Certificates of deposit	875,303	873,839
Demand bank accounts	3,072	3,042
	<u>\$1,375,363</u>	<u>\$1,460,800</u>

* Deposits of the Road Commission held by Cass County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

As of December 31, 2004, the Road Commission has investments that consist of short-term government liquid asset funds. These investments are subject to the following risk categories:

CASS COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Category 1	Investments that are insured or registered or for which the securities are held by the Road Commission or its agent in the Road Commission's name.
Category 2	Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Road Commission's name.
Category 3	Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Road Commission's name.

The Road Commission's investments of \$286,093 at December 31, 2004, consist of government liquid asset funds, which are uncategorized as to risk classification. Fair value approximates book value at December 31, 2004.

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2004
Capital assets not being depreciated:				
Land	\$ 92,146	\$ -	\$ -	\$ 92,146
Infrastructure - land improvements	9,134,127	457,324		9,591,451
Total capital assets not being depreciated - net	9,226,273	457,324	-	9,683,597
Capital assets being depreciated:				
Land improvements	553,905	68,227	-	622,132
Buildings and improvements	7,309,710	182,652	-	7,492,362
Road equipment	7,474,987	871,847	639,190	7,707,644
Shop equipment	201,790	3,984	-	205,774
Office equipment	141,612	9,210	1,014	149,808
Engineers' equipment	46,086	807	-	46,893
Yard and storage	137,808	-	-	137,808
Depleteable assets	82,422	-	-	82,422
Infrastructure	36,606,373	2,346,891	-	38,953,264
Subtotal	61,688,820	3,483,618	640,204	55,398,107
Accumulated depreciation and depletion:				
Land improvements	74,670	62,682	-	137,352
Buildings and improvements	302,757	309,958	-	612,715
Equipment	6,658,321	530,893	561,840	6,627,374
Depleteable assets	79,100	-	-	79,100
Infrastructure	19,844,341	1,414,319	-	21,258,660
Total accumulated depreciation and depletion	26,959,189	2,317,852	561,840	28,715,201
Total capital assets being depreciated - net	34,729,631	1,165,766	78,364	26,682,906
Governmental activities capital assets - net	\$ 34,821,777	\$ 1,623,090	\$ 78,364	\$ 36,366,503

CASS COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	Balance January 1, 2004	Increases	(Decreases)	Balance December 31, 2004	Due Within One Year
Bonds payable	\$8,005,000	\$ -	\$(215,000)	\$7,790,000	\$225,000
Compensated absences	130,130	250,269	(237,728)	142,671	-
Totals	\$8,135,130	\$250,269	\$(452,728)	\$7,932,671	\$225,000

Long-term debt at December 31, 2004 is comprised of the following individual obligations:

Michigan Transportation Fund Bonds (2003), payable
in annual installments from \$105,000 to \$255,000,
plus interest from 2.00% to 4.50% per annum;
final payment due in October, 2027

\$ 3,765,000

Michigan Transportation Fund Bonds (2002), payable
in annual installments from \$55,000 to \$290,000,
plus interest from 3.75% to 5.125% per annum;
final payment due in October, 2026

4,025,000

Total bonds payable

7,790,000

Accrued vacation and sick leave

142,671

Total long-term debt

\$ 7,932,671

Debt service requirements to maturity for the bonded indebtedness of the Road Commission are as follows:

Years Ending December 31	Principal	Interest	Total
2005	\$ 225,000	\$ 331,797	\$ 556,797
2006	225,000	325,284	550,284
2007	230,000	319,059	549,059
2008	240,000	311,869	551,869
2009	250,000	304,150	554,150
2010-2014	1,390,000	1,374,873	2,764,873
2015-2019	1,740,000	1,065,305	2,805,305
2020-2024	2,195,000	632,253	2,827,253
2025-2027	1,295,000	112,318	1,407,318
Total	\$ 7,790,000	\$ 4,776,908	\$ 12,566,908

CASS COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

5. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At December 31, 2004, interfund receivables and payables were as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ -	\$ 25,598
Special Revenue Fund:		
County Park Fund	<u>25,598</u>	<u>-</u>
	<u>\$ 25,598</u>	<u>\$ 25,598</u>

The Road Commission has interfund balances between its two funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The receivable from the parks special revenue fund to the general fund is due to payments made from the parks fund on behalf of the general fund expected to be reimbursed in the ensuing fiscal year.

6. DEFINED CONTRIBUTION PENSION PLAN

The Cass County Road Commission provides pension benefits for substantially all of its full-time employees through a defined contribution plan, called the Cass County Road Commission Retirement Plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate after completing one year of service. The plan requires the Road Commission to contribute, on behalf of each covered employee, seven percent (7%) of the employees' compensation, except overtime and disability payments made to hourly employees. Plan provisions and contribution requirements are established and may be amended by the Board of the Road Commission.

Participants may make voluntary contributions into the plan. The Road Commission's contributions for each employee (and interest allocated to the employee's account) are partially vested after three (3) years of continuous service and fully vested after ten (10) years of continuous service. The employee contributions become fully vested at the time of their contribution to the plan. Road Commission contributions for, and interest forfeited by, employees who leave employment before ten years of service are used to reduce the Road Commission's current-period contribution requirement. Vesting is based on years of participation in the plan. If the employee withdraws from the plan, that period of time is not included as time vested.

The Road Commission made the required contribution to the plan, amounting to \$100,607 and employee contributions were \$98,199 for the year ended December 31, 2004.

CASS COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1982, the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) was established by the Road Commissions in the State of Michigan as a public entity risk pool to operate a common risk management and insurance program for Road Commissions. Cass County Road Commission pays quarterly premiums to MCRCSIP for its general insurance coverage. The agreement for formation of the MCRCSIP provides that MCRCSIP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$100,000 for each insured event.

During 1980, Cass County Road Commission began participating in the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool established to operate a common risk management and insurance program for Road Commissions. Cass County Road Commission pays premiums to CRASIF for its workers' disability compensation insurance coverage. The agreement for formation of the CRASIF provides that CRASIF will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits.

Cass County Road Commission continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Management expects claims in excess of self-insurance coverage, if any, to be insignificant to the financial statements.

8. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

* * * * *

OPERATING FUND SCHEDULES

CASS COUNTY ROAD COMMISSION

SCHEDULE OF CHANGES IN FUND BALANCE GENERAL OPERATING FUND

FOR YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUND	LOCAL ROAD FUND	COUNTY ROAD COMMISSION	TOTALS
TOTAL REVENUE	\$ 2,961,345	\$ 4,254,218	\$ 323,448	\$ 7,539,011
TOTAL EXPENDITURES	<u>2,271,849</u>	<u>4,881,695</u>	<u>847,684</u>	<u>8,001,228</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>689,496</u>	<u>(627,477)</u>	<u>(524,236)</u>	<u>(462,217)</u>
OTHER FINANCING SOURCES (USES)				
Internal transfers	<u>(627,477)</u>	<u>627,477</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	62,019	-	(524,236)	(462,217)
FUND BALANCE, beginning of year	<u>1,680,100</u>	<u>-</u>	<u>1,336,876</u>	<u>3,016,976</u>
FUND BALANCE, end of year	<u>\$ 1,742,119</u>	<u>\$ -</u>	<u>\$ 812,640</u>	<u>\$ 2,554,759</u>

CASS COUNTY ROAD COMMISSION

SCHEDULE OF REVENUES GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUND	LOCAL ROAD FUND	COUNTY ROAD COMMISSION	TOTALS
Intergovernmental:				
State:				
Michigan transportation fund:				
Engineering	\$ 6,030	\$ 3,970	\$ -	\$ 10,000
Allocation	2,703,737	1,779,904	-	4,483,641
Urban roads	205,791	56,489	-	262,280
Snow removal	1,762	4,847	-	6,609
Critical bridge	-	17,164	-	17,164
Other	30,097	750,000	-	780,097
Federal:				
Bridge	-	91,541	-	91,541
Contributions:				
Townships	-	982,831	31,620	1,014,451
Other	-	566,851	12,303	579,154
Other revenue:				
Charges for services	621	621	2,788	4,030
Permits			42,934	42,934
Net gain on equipment disposal	10,500	-	191,641	202,141
Interest	2,807	-	25,341	28,148
Other	-	-	16,821	16,821
TOTAL REVENUE	\$ 2,961,345	\$ 4,254,218	\$ 323,448	\$ 7,539,011

CASS COUNTY ROAD COMMISSION

SCHEDULE OF EXPENDITURES GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUND	LOCAL ROAD FUND	COUNTY ROAD COMMISSION	TOTALS
Primary road:				
Heavy maintenance	\$ 755,149	\$ -	\$ -	\$ 755,149
Construction	-	-	-	-
Maintenance	798,769	-	-	798,769
Local road:				
Heavy maintenance	-	1,405,237	-	1,405,237
Construction	-	615,535	-	615,535
Maintenance	-	1,690,543	-	1,690,543
Primary winter:				
Maintenance	517,534	-	-	517,534
Local winter:				
Maintenance	-	701,658	-	701,658
Primary traffic control	108,455	-	-	108,455
Local traffic control	-	146,363	-	146,363
Equipment expense - net	(65,294)	(124,732)	(95,599)	(285,625)
Administrative expense - net	207,509	434,013	-	641,522
Capital outlay - net	(51,005)	-	205,837	154,832
Debt Service:				
Principal	-	-	215,000	215,000
Interest	-	-	338,021	338,021
Other:				
Miscellaneous	732	13,078	184,425	198,235
TOTAL EXPENDITURES	\$ 2,271,849	\$ 4,881,695	\$ 847,684	\$ 8,001,228

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

 an independent member of
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

February 18, 2005

Members of the Board of County
Road Commissioners
County of Cass, Michigan
Cassopolis, Michigan

We have audited the financial statements of the governmental activities, the major fund and the nonmajor fund of the Cass County Road Commission, a component unit of Cass County, as of and for the year ended December 31, 2004, and have issued our report thereon dated February 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cass County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cass County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of County Road Commissioners, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



February 18, 2005

The Board of County Road Commissioners
of Cass County, Michigan
Cassopolis, Michigan

We have audited the financial statements of **CASS COUNTY ROAD COMMISSION, a component unit of Cass County**, as of and for the year ended December 31, 2004, and have issued our report thereon dated February 18, 2005.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated January 18, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Cass County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Cass County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cass County Road Commission are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Cass County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable infrastructure and non-infrastructure capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Cass County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Cass County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Cass County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Cass County Road Commission’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This letter is intended for the use of the Cass County Road Commission (a component unit of Cass County), management, and federal and state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.